

Legislative Audit Division

State of Montana



Report to the Legislature

February 2002

Financial Audit

For the Fiscal Year Ended June 30, 2001

The University of Montana

We performed a financial audit of The University of Montana's consolidated financial statements for the fiscal year ended June 30, 2001. These financial statements present the financial position and results of operations, on a consolidated basis, of all four campuses affiliated with The University of Montana: The University of Montana-Missoula; Montana Tech of The University of Montana; The University of Montana-Western; and The University of Montana-Helena College of Technology. This report contains an unqualified opinion on those financial statements and accompanying notes for fiscal year 2000-01. The opinion means the reader may rely on the financial statement information presented.

This is the first audit performed to attest to the fairness of the consolidated financial statements of The University of Montana. Audit recommendations, if any, identified during this audit will be included in the biennial compliance audit of The University of Montana (#02-10B), to be issued by May 31, 2002.

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

February 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on The University of Montana's consolidated financial statements for the fiscal year ending June 30, 2001. The University requested this audit to provide timely audited financial statements to interested parties. The objective of our audit was to determine if The University's financial statements present fairly its financial position and results of operations at, and for the fiscal year ending, June 30, 2001. This objective included determining The University's compliance with laws and regulations having a direct and material impact on the financial statements.

The University financial statements report assets of approximately \$503 million, liabilities of approximately \$172.3 million, revenues and other additions exceeding \$271.6 million, and expenditures and other deductions nearing \$251.3 million.

As a result of a reorganization of the Montana University System in January 1994, The University of Montana consists of campuses located in Missoula, Butte, Dillon, and Helena. The campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges and provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

The University of Montana-Missoula, established in 1893, is a comprehensive university offering four-year undergraduate programs along with masters and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools include business administration, education, fine arts, forestry, pharmacy and allied health services, and journalism. In addition, the campus includes a two-year college of technology that provides a broad range of technical and occupational education and training courses.

Montana Tech of The University of Montana was established in 1893 as the Montana School of Mines. It provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs and

majors. It also includes a college of technology that provides two-year degrees in various occupational and technical programs and core education courses.

The University of Montana-Western was established in 1893 as the state's Normal School for Teacher Education. It provides both two-year and four-year undergraduate degree programs with a focus on elementary and secondary education. It also provides a four-year liberal arts degree with several emphases that complement the education programs.

The University of Montana-Helena College of Technology was established in 1939 as a Vocational-Technical School. This college provides two-year degree programs in core education courses that are transferable to most four-year institutions, in addition to a variety of other occupational, technical, and training specialties. These areas include accounting technology, carpentry, computer technology, practical nursing, electronics technology, and welding technology. The college is expanding its offerings and will serve as a higher education center by facilitating graduate level study in cooperation with the entire Montana University System.

A list of Appointed and Administrative Officials having oversight responsibilities with respect to The University of Montana can be found on page i.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial statements and accompanying notes. We issued an unqualified opinion on The University's consolidated financial statements, which means the reader can rely on the presented information.

This report does not contain any recommendations to The University. Recommendations made to The University in the prior audit report (#00-10) and any recommendations resulting from this financial audit will be addressed in The University's biennial compliance audit (#02-10B), expected to be issued by May 31, 2002. The University's response to this report is on page B-1.

We thank President Dennison and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Board of Regents of Higher Education

Judy Martz, Governor*
Linda McCullough, Superintendent of Public Instruction*

Margie Thompson, Chair
Edwin H. Jasmin, Vice-Chair
Lynn Morrison-Hamilton, Regent
Christian Hur, Student Regent
John Mercer, Regent
Richard Roehm, Regent
Mark Semmens, Regent

*Ex officio members

Commissioner of Higher Education

Richard A. Crofts	Commissioner of Higher Education
Joyce Scott	Deputy Commissioner for Academic and Student Affairs
Rod Sundsted	Associate Commissioner for Fiscal Affairs
Laurie Neils	Director of Budget and Accounting

The University of Montana Administrative Personnel

George M. Dennison	President
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The University of Montana – Missoula

Lois Muir	Provost and Vice President for Academic Affairs and University Provost
Robert Duringer	Vice President for Administration and Finance and University Vice President
T. Lloyd Chesnut	Vice President for Research and Development and University Vice President
Barbara B. Hollmann	Vice President for Student Affairs and University Vice President
David Aronofsky	Legal Counsel
James R. Darcy	Director of Business Services
A. William Muse	Executive Director of Planning, Budget and Analysis

Appointed and Administrative Officials

Montana Tech of The University of Montana

W. Franklin Gilmore	Chancellor and University Executive Vice President
Susan B. Patton	Interim Vice Chancellor for Academic Affairs and Research and University Associate Provost
Joseph F. Figueira	Vice Chancellor for Research and Graduate Studies and University Associate Vice President
John C. Badovinac	Controller/Business Manager
Lynn Job	Director Contracts and Grants

The University of Montana- Western

Stephen T. Hulbert	Chancellor and University Executive Vice President
Karl E. Ulrich	Vice Chancellor for Academic Affairs and University Associate Provost
Thomas R. Yahraes	Vice Chancellor for Institutional Advancement and University Associate Vice President for Student Affairs
Susan D. Briggs	Vice Chancellor for Administration and Finance and University Associate Vice President
Lois G. Cearley	Controller

The University of Montana- Helena College of Technology

Richard L. Gray	Interim Dean/CEO
Ted G. Plaggemeyer	Interim Associate Dean for Academic Affairs
Donnie J. Whitaker	Controller
Myrna M. Doney	Assistant Dean for Student Affairs

Members of the audit staff involved in this audit were Chris G. Darragh, Laurie H. Evans, Hollie Koehler, and Vickie Rauser.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Consolidated Balance Sheet of The University of Montana, a component unit of the state of Montana, as of June 30, 2001, and the related Consolidated Statement of Changes in Fund Balance and Consolidated Statement of Current Funds Revenues, Expenditures and Other Changes for the fiscal year ended June 30, 2001. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Montana as of June 30, 2001, and the changes in fund balance and the current funds revenues, expenditures and other changes for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 9, The University of Montana changed its reporting entity definition in fiscal year 2000-01.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

January 25, 2002

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University of Montana
Consolidated Balance Sheet
June 30, 2001

	CURRENT FUNDS			
	Unrestricted		Auxiliary	Restricted
ASSETS	General Operating	Designated	Enterprises	
Cash and Cash Equivalents	\$ 9,613,040	\$ 6,725,213	\$ 3,534,794	\$ 4,634,190
Investments		243,421		10,899
Accounts Receivable, Net of Allowance	1,335,813	1,168,190	775,808	3,733,847
Interest Receivable		41,384		
Inventories	199,795	694,563	942,724	
Prepaid Expenses and Deferred Charges	1,619,443	822,862	11,999	334,389
Due from Federal Government	17,787			6,103,656
Due from Other Fund Groups	1,114,120	1,534,974	518,625	1,488,169
Interfund Loans Receivable	200,000	4,520,000		
Student Loans Receivable, Net of Allowance				
Loans Receivable, Net of Allowance	77,931			
Property, Equipment , & Other Assets				
Cash Collateral - Securities Lending				
TOTAL ASSETS	\$ 14,177,929	\$ 15,750,607	\$ 5,783,950	\$ 16,305,150
	LIABILITIES AND FUND BALANCE			
	Unrestricted		Auxiliary	Restricted
LIABILITIES	General Operating	Designated	Enterprises	
Accounts Payable and Accrued Liabilities	\$ 8,274,357	\$ 928,920	\$ 495,393	\$ 454,520
Accrued Interest Payable	210		892	
Students' Deposits	75,349		34,640	
Deposits Held in Custody for Others	14,480	81,147	602,520	9,195
Due to Other Fund Groups	2,288,581	1,405,072	1,035,637	3,783,055
Deferred Revenue	3,112,772	1,328,110	397,772	
Current Notes Payable				
Notes Payable	77,930			
Long Term Obligations				
Interfund Loans Payable	350,237		67,023	4,720,000
Bonds Payable, Net of Discount				
Compensated Leave	11,083,357	2,473,976	1,276,987	
Liability Under Securities Lending				
TOTAL LIABILITIES	\$ 25,277,273	\$ 6,217,225	\$ 3,910,864	\$ 8,966,770
Fund Balances	(11,099,344)	9,533,382	1,873,086	7,338,380
TOTAL LIABILITIES AND FUND BALANCE	\$ 14,177,929	\$ 15,750,607	\$ 5,783,950	\$ 16,305,150

See Summary of Significant Accounting Policies and Notes to Financial Statements

PLANT FUNDS

Student Loan Funds	Endowment Funds	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment in Plant	Agency Funds
\$ 1,293,256	\$ 713,279	\$ 7,510,719	\$ 5,610,789	\$ 1,138,594		\$ 410,849
305,005	4,309,328		477,358			
114,234		556,604	15,596			94,962
	13,100	75,456	632	1,035		3,221
		19,376	4,049	2,047,658		
80,942						
10,462	7,299	3,517	309,384	17,204		3,996,807
		439,840	25,897			
9,617,983						
		6,975,405	907,426		404,058,462	
	188,598					
\$ 11,421,882	\$ 5,231,604	\$ 15,580,917	\$ 7,351,131	\$ 3,204,491	\$ 404,058,462	\$ 4,505,839
\$ 50,090		\$ 1,094,866	\$ 160,901	\$ 129,808		\$ 3,750,347
				816,191		
						16,953
						460,665
19,092	40,706	35,201	99,340	16,003		277,874
		188,360		76,680		
					338,433	
			11,970			
					2,482,748	
					48,477	
		10,319,500		2,063,724	105,245,064	
	188,598					
\$ 69,182	\$ 229,304	\$ 11,637,927	\$ 272,211	\$ 3,102,406	\$ 108,114,722	\$ 4,505,839
11,352,700	5,002,300	3,942,990	7,078,920	102,085	295,943,740	
\$ 11,421,882	\$ 5,231,604	\$ 15,580,917	\$ 7,351,131	\$ 3,204,491	\$ 404,058,462	\$ 4,505,839

The University of Montana
Consolidated Statement of Changes in Fund Balance
Year Ended June 30, 2001

	Current Funds			
	General Operating	Unrestricted Designated	Auxiliary Enterprises	Restricted
REVENUES AND OTHER ADDITIONS				
Unrestricted Current Fund	\$ 110,009,278	\$ 25,751,436	\$ 36,564,548	\$
Private Gifts, Grants and Contracts				11,690,851
Government Grants and Contracts				49,542,934
Federal Contributions				
Land Grant Income				
Interest and Recovery on Loans				
Student Fees				
Investment Income				353,879
Retirement of Indebtedness				
Additions to Plant				
Other				3,165,667
TOTAL REVENUES AND OTHER ADDITIONS	\$ 110,009,278	\$ 25,751,436	\$ 36,564,548	\$ 64,753,331
EXPENDITURES AND OTHER DEDUCTIONS				
Current Funds Expenditures	\$ 109,584,938	\$ 22,839,186	\$ 30,411,554	\$ 58,013,832
Indirect Cost Recovered				5,502,700
Loan Cancellations, Collection Costs and Bad Debt Expense				
Expended for Plant Facilities				
Retirement of Indebtedness				
Interest on Indebtedness				
Other Expenditures				
Deletions from Plant				
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	\$ 109,584,938	\$ 22,839,186	\$ 30,411,554	\$ 63,516,532
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)				
Mandatory:				
Principal and Interest	\$ (32,055)	\$ (590,486)	\$ (4,221,791)	\$ (5,000)
Renewals and Replacements				
Other		2,833	(1,713,008)	
Non-Mandatory:	(726,048)	(373,097)	(177,458)	(109,853)
Net Investment in Plant				
TOTAL TRANSFERS - ADDITIONS (DEDUCTIONS)	\$ (758,103)	\$ (960,750)	\$ (6,112,257)	\$ (114,853)
NET INCREASE (DECREASE) FOR THE YEAR	\$ (333,763)	\$ 1,951,500	\$ 40,737	\$ 1,121,946
Fund Balance - Beginning of Year	\$ (10,701,081)	\$ 7,531,101	\$ 2,003,698	\$ 6,157,315
Prior Year Adjustments	(64,500)	(111,419)	(9,149)	59,119
Fund Structure Changes		162,200	(162,200)	
FUND BALANCE - BEGINNING OF YEAR RESTATED	\$ (10,765,581)	\$ 7,581,882	\$ 1,832,349	\$ 6,216,434
FUND BALANCE AT END OF YEAR	\$ (11,099,344)	\$ 9,533,382	\$ 1,873,086	\$ 7,338,380
Fund Balances Consist of:				
Unrestricted -				
General	\$ (11,099,344)	\$ 9,533,382	\$ 1,873,086	\$
Unexpended				
Renewal and Replacement				
Retirement of Indebtedness				
Restricted -				
U.S. Government Grants Refundable				
General				7,338,380
Net Investment in Plant				
TOTAL FUND BALANCES	\$ (11,099,344)	\$ 9,533,382	\$ 1,873,086	\$ 7,338,380

See Summary of Significant Accounting Policies and Notes to Financial Statements

		Plant Funds				
Student Loans	Endowment Funds	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment In Plant	
\$ 10,150	\$ 775	\$ 670,795				
249,905				11,463		
224,012		1,156,628				
(31,546)	(311,219)	3,349,441		1,346,183		
		594,373	444,240	28,196		
					3,816,768	
					16,557,616	
101,718		392,266	343,135	22,549		
\$ 554,239	\$ (310,444)	\$ 6,163,503	\$ 787,375	\$ 1,408,391	\$ 20,374,384	
\$	\$	\$	\$	\$	\$	
388,953						
		27,674	2,801,679		150,000	
			13,175	2,955,743	384,968	
				6,398,250	41,616	
		1,110,585	117,549	251,996		
					5,092,941	
\$ 388,953	\$	\$ 1,138,259	\$ 2,932,403	\$ 9,605,989	\$ 5,669,525	
\$	\$	\$ (2,629,086)	\$ (89,075)	\$ 7,567,493	\$	
		(281,016)	281,016			
(5,189)		1,193,740	5,193	516,431		
(2,415)	17,430	(1,556,108)	3,152,065	(224,516)		
		(8,896,149)	(2,424,574)	224,748	11,095,975	
\$ (7,604)	\$ 17,430	\$ (12,168,619)	\$ 924,625	\$ 8,084,156	\$ 11,095,975	
\$ 157,682	\$ (293,014)	\$ (7,143,375)	\$ (1,220,403)	\$ (113,442)	\$ 25,800,834	
\$ 11,194,650	\$ 5,294,850	\$ 9,317,307	\$ 8,295,210	\$ 1,041,939	\$ 270,142,906	
368	464	942,646	4,113			
		826,412		(826,412)		
\$ 11,195,018	\$ 5,295,314	\$ 11,086,365	\$ 8,299,323	\$ 215,527	\$ 270,142,906	
\$ 11,352,700	\$ 5,002,300	\$ 3,942,990	\$ 7,078,920	\$ 102,085	\$ 295,943,740	
\$ 1,708,309	\$ 1,630,837	\$	\$	\$	\$	
		3,930,083				
			6,578,920			
				102,085		
9,644,391		12,907				
	3,371,463		500,000			
					295,943,740	
\$ 11,352,700	\$ 5,002,300	\$ 3,942,990	\$ 7,078,920	\$ 102,085	\$ 295,943,740	

The University of Montana
Consolidated Statement of Current Funds Revenues, Expenditures and Other Changes
Year Ended June 30, 2001

	Unrestricted	
	General Operating	Designated
REVENUES		
Tuition and Fees	\$ 54,609,958	\$ 5,736,625
State Appropriation	53,743,761	-
Federal Grants and Contracts	182,091	29,360
State and Local Grants/Contracts		239,663
Private Grants and Contracts		83,277
Private Gifts		17,153
Investment Income	650,970	383,013
Sales and Service	26,874	8,564,912
Indirect Cost Recoveries		5,446,711
Other Sources	795,624	5,250,722
TOTAL CURRENT REVENUES	\$ 110,009,278	\$ 25,751,436
EXPENDITURES AND MANDATORY TRANSFERS		
Educational and General:		
Instruction	\$ 58,355,390	\$ 3,683,102
Research	2,034,251	4,288,029
Public Service	699,206	1,812,359
Academic Support	13,114,673	1,613,026
Student Services	8,540,926	7,475,982
Institutional Support	7,958,344	2,397,848
Operations and Maintenance of Plant	12,147,123	339,115
Scholarships and Fellowships	4,589,631	1,181,288
EDUCATIONAL AND GENERAL EXPENDITURES	\$ 107,439,544	\$ 22,790,749
Auxiliary Enterprises Expenditures		48,437
Independent Operations	2,145,394	
TOTAL EXPENDITURES	\$ 109,584,938	\$ 22,839,186
MANDATORY TRANSFERS		
Principal and Interest	\$ 32,055	\$ 590,486
Other		(2,833)
TOTAL MANDATORY TRANSFERS	\$ 32,055	\$ 587,653
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	\$ 109,616,993	\$ 23,426,839
OTHER TRANSFERS - ADDITIONS(DEDUCTIONS)		
Restricted Receipts Over (Under)		
Transfers to Revenue	\$	\$
Non-Mandatory Transfers	(726,048)	(373,097)
TOTAL OTHER TRANSFERS - ADDITIONS(DEDUCTIONS)	\$ (726,048)	\$ (373,097)
NET INCREASE(DECREASE) IN FUND BALANCE	\$ (333,763)	\$ 1,951,500

See Summary of Significant Accounting Policies and Notes to Financial Statements

Auxiliary Enterprise	Restricted	Total
\$ 5,250,353	\$	\$ 65,596,936
		53,743,761
	41,268,523	41,479,974
	3,910,701	4,150,364
	8,846,595	8,929,872
	2,808,629	2,825,782
440,669	347,574	1,822,226
29,662,413	113,267	38,367,466
(2,641)		5,444,070
1,213,754	718,543	7,978,643
\$ 36,564,548	\$ 58,013,832	\$ 230,339,094

\$	\$ 7,032,208	\$ 69,070,700
	24,579,362	30,901,642
	5,809,404	8,320,969
	3,172,973	17,900,672
	435,810	16,452,718
	152,713	10,508,905
	81,386	12,567,624
	16,614,086	22,385,005
\$	\$ 57,877,942	\$ 188,108,235
30,411,554	135,890	30,595,881
		2,145,394
\$ 30,411,554	\$ 58,013,832	\$ 220,849,510

\$ 4,221,791	\$ 5,000	\$ 4,849,332
1,713,008		1,710,175
\$ 5,934,799	\$ 5,000	\$ 6,559,507

\$ 36,346,353	\$ 58,018,832	\$ 227,409,017
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\$	\$ 1,236,799	\$ 1,236,799
(177,458)	(109,853)	(1,386,456)
\$ (177,458)	\$ 1,126,946	\$ (149,657)
\$ 40,737	\$ 1,121,946	\$ 2,780,420

THE UNIVERSITY OF MONTANA
A Component Unit of the State of Montana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended June 30, 2001

1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The University of Montana, (hereafter The University) financial statements include all activities of The University, the Forestry Experiment Station and the Montana Bureau of Mines. The University consists of four campuses: Missoula, Montana Tech, Western Montana College and Helena College of Technology.

The financial statements for The University are included as a component part of the State of Montana General Purpose Financial Statements, which are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

The University follows the standards of accounting and reporting as described by National College and University Business Officers (NACUBO). In accordance with Governmental Accounting Standard No. 15, "Governmental College and University Accounting and Reporting Models," the University has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model."

PRINCIPLES OF CONSOLIDATION

Amounts due between component institutions in the same funds and other duplications in reporting are eliminated in consolidating individual financial statements.

BASIS OF ACCOUNTING

The financial statements of The University have been prepared on the accrual basis, except for depreciation accounting. The statement of current funds revenues, expenditures and other changes is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal additions; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and property renewal and replacement; and (3) other transfers, for all other cases.

FUND ACCOUNTING

To ensure observance of limitations and restrictions placed on the use of the resources available to The University, financial records are maintained in accordance with the principles of fund accounting. These principles require that resources be classified for accounting and reporting purposes into fund groups according to the activities or objectives specified for the resources. Accounts are separately maintained for each fund. In the accompanying consolidated financial statements, funds that have similar characteristics have been combined into fund groups. Descriptions of these fund groups are as follows:

Current funds - Current funds are used primarily to account for transactions made in performing the primary and support objectives of The University: instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships and auxiliary activities. Funds included in this classification consist of:

- A. **General operating funds** - These funds are used to account for transactions relating to the educational and general operations of The University. The fund balance includes the unfunded liability of \$11,083,357 for compensated absences and associated benefits. The University's total unfunded liability for compensated absences and associated benefits was approximately \$14 million at fiscal year end.
- B. **Designated funds** - These funds are used to account for educational, chargeback, and administrative activities that are essentially self-supporting. Resources in this fund group have been designated for specific purposes by The University or by the Montana Board of Regents.
- C. **Auxiliary enterprises funds** - These funds are used to account for transactions of substantially self-supporting activities that primarily provide services for students, faculty and staff. Auxiliary enterprises include activities such as student housing, dining services, swimming pool, golf course and health/dental service.
- D. **Restricted funds** - These funds are used to account for current funds expended for operating purposes but are restricted by donors or other outside agencies as to how they may be spent. Revenues of the restricted funds are reported in the combined statement of current funds revenues, expenditures and other changes only to the extent expended for current operating purposes. The difference between receipts and expenditures is included as an addition to or deduction from fund balance for the year.

Student loan funds - These funds are available for loans to students to help finance their education and are provided by federal, private and University sources. The federal government provides the majority of the funds.

Endowment and similar funds - These funds have specific donor or other outside agency restrictions prohibiting the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested to produce income. The income may or may not be restricted as to use, at the donor's instruction.

Plant funds - These funds are used to account for the transactions relating to investment in University properties. Plant funds include:

- A. **Unexpended plant fund** - comprised of amounts that have been appropriated or designated for land, improvements, buildings and equipment.
- B. **Renewal and replacement fund** - comprised of amounts provided for renewal and replacement of properties.
- C. **Retirement of indebtedness fund** - accumulates resources for interest and principal payments and other debt service charges relating to plant fund indebtedness.
- D. **Net investment in plant fund** - represents the total of property, buildings, equipment and related liabilities.

Agency funds - These funds are used to account for assets held by The University as custodian or fiscal agent for others. Consequently, the transactions of this fund do not affect the statement of changes in fund balance.

CAPITALIZATION POLICY

All state agencies are required to capitalize fixed assets only if an item's unit cost is \$5,000 or more and the item has a useful life of more than one year.

INVESTMENT REPORTING AT FAIR VALUE

Statement #31 of the Governmental Accounting Standards Board requires reporting certain investments at fair value on the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. All investment income, including changes in the fair value of investments, is reported as investment income in the financial statements.

RECLASSIFICATIONS

Certain prior year fund balances have been transferred to different fund groups as a result of changes to the fund structure. The reclassifications have been disclosed as an adjustment to beginning fund balance in the Combined Statement of Changes in Fund Balance.

2. Assets

Investments - Investments at June 30, 2001 consisted of the following at fair value:

	<u>Investments Held by the State of Montana Board of Investments</u>	<u>Investments Held by Trustees</u>
Cash Equivalents	\$24,909,170	\$5,656,859
Stocks and Bonds	3,336,023	-----
US Government Securities	-----	477,358
UM Foundation Pool	-----	1,283,400
Tech Foundation Pool	-----	5,809
Certificate of Deposit	-----	243,421
Total	<u>\$28,245,193</u>	<u>\$7,666,847</u>

Cash equivalents consist of cash invested in Guaranteed Investment Contracts with AIG Funding Corporation and AMBAC Capital Funding and in the Short Term Investment Pool (STIP) with the Montana Board of Investments. Cash equivalents are classified as Risk Category #1.

STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio includes asset-backed securities, banker's acceptances, certificates of deposit, commercial paper, corporate and government securities, repurchase agreements and variable rate securities to provide diversification and a competitive rate of return. Asset-backed securities are collateralized by non-mortgage assets pledged by the issuer. Asset-backed securities have one or more forms of credit enhancement to raise the quality of the security. Stocks and bonds consist of assets held in the Trust Funds Bond Pool (TFBP) and the Montana Stock Pool (Montcomp) administered by the Montana Board of Investments. Montcomp and TFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle."

The Montcomp portfolio includes common stock and convertible equity securities. Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock.

The TFBP portfolio includes corporate asset-backed, other corporate, U.S. government mortgage-backed, and Yankee securities. Corporate asset-backed securities represent debt securities collateralized by a pool of assets. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Government securities include direct and indirect obligations of the U.S. Treasury and state and local government bonds. Yankee bonds are U.S. dollar denominated securities issued by foreign corporations and governments and U.S. companies issuing debt in foreign markets.

The University Foundation Pool consists of certain endowment funds held in a common investment pool administered by the UM and Montana Tech Foundations.

The certificate of deposit serves as collateral for loans made to students for the purchase of computer equipment. The six-month certificate of deposit, including interest earned, is reinvested upon maturity.

Investments are carried and reported at fair value in accordance with GASB Statement #31 (see note #2). The cost basis of cash equivalents and investments held by the State of Montana Board of Investments was \$27,579,656. The cost basis of cash equivalents and investments held by trustees was \$7,635,696.

All current earnings (dividends and interest) earned by Endowment funds investments are distributed to Current Restricted Funds accounts. The University of Montana's endowment policy limits spending to 5% of the principal amount and any excess is transferred back to the Endowment funds to be reinvested.

Securities Lending Transactions - Under the provisions of state statutes, the Board of Investments has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the market value of the loaned securities and maintain collateral equal to not less than 100 percent of the market value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal year 2001, State Street Bank lent, on behalf of the Board, certain securities held by State Street as custodian, and received in return, U.S. dollar currency, U.S. government securities and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal year 2001 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal year 2001 and there were no losses resulting from default of the borrowers or State Street.

During fiscal year 2001, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2001, the board had no credit risk exposure to borrowers. Security lending cash collateral for The University at June 30, 2001 was \$188,598.

Inventories - Inventories are comprised of consumable supplies, food items and items held for resale or recharge within the University. The larger inventories are valued using the moving average method. Other inventories are valued using First In First Out (FIFO) or specific identification methods.

Loans Receivable - The loans receivable consist of two types of loans: short-term and long-term. The short-term loans are due in one payment 30 to 90 days from the date borrowed. The long-term loans are generally repayable in installments to The University over a one-year to ten-year period beginning zero to twelve months from the date of separation from The University (depending on loan type). Loans receivable from students bear interest at rates ranging from 0 to 12 percent.

Plant Assets - Plant assets are stated at cost when purchased or constructed or, if acquired by gift, at the estimated fair market value at date of gift. Intangible assets consist of computer software. Equipment acquired with restricted grants and contracts is recorded as an addition to investment in plant at the time of purchase. On certain grants and contracts, title to equipment purchased is vested with the grantor or contractor until completion of the project at which time the equipment may revert to The University.

Governmental Accounting Standard No. 8, "Applicability of FASB Statement No. 93, Recognition of Depreciation by Not-for-Profit Organizations to Certain State and Local Governmental Entities," provides that governmental colleges and universities should not change their accounting and reporting for depreciation of capital assets as a result of FASB Statement No. 93. Accordingly, The University does not record depreciation of capital assets.

Property, equipment and other assets at June 30, 2001 consisted of the following:

Intangible Assets	\$2,586,581
Buildings and Improvements	297,466,348
Furniture and Equipment	38,749,933
Library Books and Materials	41,037,665
Land/Land Improvements	14,094,685
Construction in Progress	12,715,787
Museum and Art Collection	5,080,632
Livestock	209,662
Total	<u>\$411,941,293</u>

In 1881, The Congress of the United States granted land to the State of Montana for the benefit of the State's universities and colleges. The enabling act, approved February 22, 1889, granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber, oil royalties and other minerals, must be reinvested and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was \$1,156,628 for the fiscal year ended June 30, 2001, and is reported as plant fund revenue. These monies are currently pledged to the Series A 1993, Series C 1995, Series E 1998, and Series F 1999 revenue bonds.

The University's land grant assets are not reflected in these financial statements, but are included as a component of the State of Montana General Purpose Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

3. Liabilities

Capital Leases - The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2001:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2002	\$440,315
2003	425,645
2004	156,821
2005	62,954
2006	<u>25,367</u>
Minimum Lease Payments	\$1,111,102
Less: Amount Representing Interest	<u>(103,191)</u>
Present Value of Net Minimum Lease Payments	<u>\$1,007,911</u>

Bonds Payable – Revenue bonds were issued pursuant to an Indenture of Trust between the Board of Regents of Higher Education for the State of Montana (on behalf of The University of Montana) and U. S. Bank Trust National Association MT. The bonds are secured by a first lien on the combined Pledged Revenues of the four campuses of The University of Montana. The pledged revenues earned at each campus are cross-pledged among all campuses of The University of Montana. Bonds payable recorded by each campus reflect the liability associated with the bond proceeds deposited into the accounts of that campus and do not necessarily mean that the debt service payments on that liability will be made by that campus.

The total aggregate principal amount originally issued pursuant to the Indenture of Trust and the various supplements to the Indenture for all campuses of The University of Montana was \$127,960,000. The combined principal amount outstanding at June 30, 2001 is \$119,775,001.

On November 10, 1993, The University of Montana issued \$48,050,000 in Series A 1993 Revenue Bonds, with interest rates ranging from 2.3 to 5.0 percent to advance refund \$15,823,643 of outstanding 1985/1987 Series A and B Revenue Bonds (Missoula) with interest rates ranging from 6.0 to 9.75 percent, and 1966 Series B, C, & D and 1967 Series A & B Revenue Bonds (Western Montana College) with interest rates ranging from 3.0 to 5.25 percent. Proceeds of \$22,286,749, together with certain funds and monies of The University were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to legally defease the 1985/1987 Series A and B bonds, the 1966 Series B, C, & D bonds, and the 1967 Series A & B bonds. The balance of the proceeds, together with certain funds and monies of The University, provided funds for the acquisition, construction, repair, replacement, renovation and improvement of certain facilities and properties at The University.

On December 14, 1995, The University of Montana issued \$34,406,784 of Series C 1995 Revenue Bonds, with interest rates ranging from 3.80 to 5.75 percent. In fiscal year 2000, the Series F 1999 Revenue Bonds issuance advance refunded a portion of Series C 1995 revenue bonds (see below). On June 26, 1998, The University of Montana issued \$10,670,000 of Series E Facilities Improvement Revenue Bonds, with interest rates ranging from 3.90 to 5.00 percent. The proceeds from these two issues provided funds for the acquisition, construction, repair, replacement, renovation and improvement of certain facilities and properties.

On November 12, 1999, The University of Montana issued \$69,240,000 of Series F 1999 Revenue Bonds, with interest rates ranging from 3.80% to 6.00%. The proceeds from the issue were used for the purpose of restructuring Series B, C, and D Facilities Improvement Revenue Bonds, and for the acquisition,

construction, remodeling, improvement and equipping certain facilities and properties at The University of Montana.

The University of Montana recorded \$58,205,000 of the Series F 1999 Revenue Bonds to advance refund \$58,609,189 of outstanding Series B, C and D Facilities Improvements Revenue Bonds with average interest rates ranging from 4.30% to 6.65%. The bonds are considered legally defeased and as a result, the liability for those bonds has been removed from the plant funds.

Included in the Series F issuance is \$10,650,000 for construction of a new recreation facility at The University of Montana - Missoula. The students of The University voted to assess a student fee to fund a portion of the debt service on the \$10,650,000. The remainder of the debt service will be paid by fees charged faculty and staff and from other projected sources of revenue.

Included in the Series D (defeased) proceeds is \$7,000,000 for classroom and laboratory renovation at all campuses. Beginning in FY98, a student fee for academic facilities is collected for debt service on the \$7,000,000.

Revenue Bonds Payable - As of June 30, 2001, annual principal payments are as follows:

Series A 1993

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>
2002	4.10 - 4.20%	\$ 1,860,000
2003	4.20 - 4.30%	1,935,000
2004	4.30 - 4.50%	2,025,000
2005	4.50 - 4.60%	2,115,000
2006+	4.60 - 5.00%	<u>28,610,000</u>
Total		\$36,545,000
Less: Unamortized Discount		<u>(858,518)</u>
Total 1993 A Bonds Payable		<u>\$35,686,482</u>

Series C 1995 (Partial)

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>
2002	4.375%	\$ 340,000
2003	4.50%	350,000
2004	4.60%	370,000
2005	5.25%	385,000
2006+	5.00 - 5.75%	<u>2,775,000</u>
Total		\$ 4,220,000
Add: Unamortized Premium		<u>16,770</u>
Total 1995 C Bonds Payable		<u>\$ 4,236,770</u>

Series E 1998

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>
2002	4.10%	\$ 415,000
2003	4.15%	440,000
2004	4.20%	720,000
2005	4.30%	755,000
2006+	4.35 – 5.00%	<u>7,805,000</u>
Total		\$10,135,000
Less: Unamortized Discount		<u>(31,966)</u>
Total 1998 E Bonds Payable		<u>\$ 10,103,034</u>

Series F 1999

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>
2002	4.30%	\$ 280,000
2003	4.45%	285,000
2004	4.60%	255,000
2005	4.70%	275,000
2006+	4.80 – 6.00%	<u>67,780,002</u>
Total		\$68,875,002
Less: Unamortized Discount		<u>(1,273,000)</u>
Total 1999 F Bonds Payable		<u>\$ 67,602,002</u>

In prior years, The University defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in The University's financial statements. As of June 30, 2001, \$59,516,189 of bonds outstanding is considered defeased.

Notes Payable - On June 30, 2001, The University of Montana was indebted for long-term notes payable as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Principal Outstanding</u>
Intercap – Telephone System	Variable	August 15, 2004	\$ 132,220
Intercap – Network Engineering	Variable	February 15, 2007	160,576
Intercap – Computer Equipment	Variable	February 15, 2004	175,244
Intercap – KUFM TV	Variable	February 15, 2007	311,534
Intercap – Lubrecht Forest	Variable	August 15, 2008	141,122
Intercap – Mansfield Library	Variable	August 15, 2002	42,587
Intercap – Biological Station	Variable	August 15, 2002	7,366
Intercap – Motor Pool	Variable	February 15, 2002	6,183
Intercap – Campus Quick Copy	Variable	August 15, 2002	10,405
Intercap – University College	Variable	August 15, 2002	5,121
Intercap – Intercollegiate Athletics	Variable	February 15, 2010	437,662
Intercap – Info.Tech Resource Center	Variable	February 15, 2003	73,194

InterCap – Printing Services	Variable	February 15, 2001	37,831
InterCap – Helena College of Tech	Variable	February 5, 2003	16,740
Mortgages	8.50%	June 15, 2017	<u>255,485</u>
Total Notes Payable			\$ 1,813,270
Less Current Maturities			<u>\$ (338,433)</u>
Total Long-Term Notes Payable			<u>\$ 1,474,837</u>

In fiscal year 2001 a note payable, due to the UC Bookstore, with an outstanding balance of \$500,000, was forgiven upon an agreement between The University and the UC Bookstore. The note payable related to a renovation project completed in prior years at the University Center, which is located on the Missoula Campus. The UC Bookstore leases space from the University Center, and is not owned and operated by The University.

Compensated Leave - Eligible University employees earn 8 hours sick and 10 hours annual leave for each month worked. The accrual rate for annual leave increases with longevity. Eligible employees may accumulate annual leave up to twice their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and 100 percent of accumulated annual leave, if not used during employment, is paid upon termination. The accumulated liability for compensated absences in the current funds totaled \$14,834,320 for the year ended June 30, 2001.

4. Commitments

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such expenditures. Accordingly, approximately \$55,000 of outstanding purchase orders and purchase commitments as of June 30, 2001, is not reported in the accompanying financial statements.

As of June 30, 2001, The University has initiated construction of the following major capital projects:

Project	Budget As of 6/30/2001	Total Expenditures as of 6/30/01	Funding Source
Student Recreation Center	\$10,000,000	\$5,519,479	1999 F Revenue Bonds
Craig Hall Sprinkler System	320,000	103,773	Auxiliary Funds
Renovation Research Administration Offices	110,000	88,060	Designated Funds
Turner Hall Alarm Enhancement	232,277	202,767	Auxiliary Funds
Boiler /Shop Ventilation	650,000	603,287	State Funds, Other
ADA MG Renovation	188,000	94,231	State Funds
COT Roof	<u>350,000</u>	<u>264,109</u>	State Funds
Total	<u>\$ 11,850,277</u>	<u>\$ 6,875,706</u>	

5. Federal Aid Fees

The University assesses a fee to cover administrative costs of the Federal Perkins Loan Fund and federal student aid programs. Federal regulations permit the entire fee to be charged to a single program or

distributed equally, or unequally, to the various programs at The University's option. Administrative costs charged to federal financial aid programs for the fiscal year ended June 30, 2001 were \$208,036.

6. Retirement Plans

Full-time employees of The University of Montana are all members of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS) or the Optional Retirement Program (ORP) as described below. Only faculty and administrators with contracts under the authority of the Board of Regents are enrolled under TRS or ORP. Beginning July 1, 1993, state legislation required all new faculty and administrators with contracts under the authority of the Board of Regents to enroll in ORP.

PERS and TRS

PERS and TRS are statewide, cost sharing, multiple employer defined benefit retirement plans. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. PERS, a mandatory system established by the State in 1945, provides retirement services to substantially all public employees.

TRS, established in 1937, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the University System.

Contribution rates for the plan are required and determined by State law. The contribution rates for 2001 expressed as a percentage of covered payroll are as follows:

	<u>Employee</u>	<u>Employer</u>
PERS	6.90%	6.90%
TRS	7.15%	7.47%

The amounts contributed to the plan during years ending June 30, 1999, 2000, and 2001 were equal to the required contribution each year. The amounts contributed were as follows:

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
PERS- Employer	\$1,973,172	\$2,230,424	\$2,256,341
Employee	\$1,963,929	\$2,229,139	\$2,253,266
TRS – Employer	\$2,113,454	\$2,059,721	\$1,926,278
Employee	\$1,992,926	\$1,971,485	\$1,849,267

The plans issue publicly available annual reports that include financial statements and required supplemental information. The reports may be obtained from the following:

Public Employees' Retirement Administration
P.O. Box 200131
100 North Park, Suite 220
Helena, Montana 59620-0131
Phone: (406) 444-3154

Teachers' Retirement Division
P.O. Box 200139
1500 Sixth Avenue
Helena, MT 59620-0139
Phone: (406) 444-3134

ORP

ORP was established in 1988 and is underwritten by the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The ORP is a defined contribution plan. Contribution rates for the plan are required and determined by State law. The University's contributions were equal to the required contribution. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University of Montana records employee/employer contributions and remits monies to TIAA-CREF. Individuals vest immediately in the employer portion of retirement contributions.

Contributions to ORP for fiscal year 2001 are as follows:

	ORP (TIAA-CREF)
Covered Payroll	\$36,202,178
Employer Contributions	\$1,794,180
Percent of Covered Payroll	4.956%
Employee Contributions	\$2,550,726
Percent of Covered Payroll	7.044%

In addition, a total of \$1,350,343 or 3.73 percent was contributed to TRS from ORP employer contributions to amortize past service unfunded liability in accordance with state law.

Annual reports that include financial statements and required supplemental information on the plan are available from:

TIAA-CREF
730 Third Avenue
New York, New York 10017-3206
Phone: 1-800-842-2733

7. Contingencies

The University is a defendant in several legal actions. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on The University's financial position.

Funds provided to The University and accounted for in the Current Restricted Funds and Student Loan Funds are subject to review and audit by cognizant agencies. The University does not expect any material adjustments or repayments to result from such audits.

Although The University is exempt from federal income tax as an instrumentality of the State of Montana, certain income may be considered unrelated business income by the Internal Revenue Service (IRS). The Montana University System files appropriate tax returns with the IRS to report such income. Because the tax liability for the System as a whole is not material, no provision is recorded in the accompanying financial statement.

8. Affiliated Organizations

The University of Montana is a component unit of the State of Montana. These financial statements include only the activities, funds and accounts of The University. Private nonprofit organizations affiliated with The University include The University of Montana Foundation, Montana Tech Foundation, The University of Montana-Western Foundation, the Grizzly Athletic Association, The University of Montana Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club, and the Montana Tech Alumni Association.

The foundations and associations operate exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, The University. In fiscal year 2001, \$8,648,144 was transferred to/expended for The University for scholarships and academic/institutional support from The University of Montana Foundation; \$1,399,347 from the Montana Tech Foundation; \$358,604 from The University of Montana-Western Foundation. In addition, \$816,975 was transferred for scholarships and construction projects from the Grizzly Athletic Association. In exchange, The University provides the foundations with office space and an annually contracted fee, and the associations with office space, staff and some related office expenses.

MonTEC was established as a nonprofit corporation in fiscal year 2001 as a result of an agreement between The University and the Missoula Area Economic Development Foundation (MAEDF). The corporation acquired a warehouse facility in fiscal year 2001 and was in the process of renovating the facility at June 30, 2001. MonTEC intends to provide low cost lease space and business consulting to local "start-up" companies beginning in fiscal year 2002. Cost of the renovation project is estimated to be approximately \$1.5 million and will be funded exclusively from federal grants. A portion of the federal funding was received directly by the University and passed through to MonTEC to fund the renovation project. Once operations begin, MonTEC should be entirely self-supporting. The corporation's board of directors is comprised equally of members appointed by MAEDF and The University.

9. Accounting Change

In prior years, the four campuses of The University of Montana issued separate audited financial statements. Beginning with the fiscal year ended June 30, 2001, The University will prepare consolidated financial statements. Management believes presenting consolidated financial information more accurately represents the financial condition of The University. This change in reporting represents a change in accounting entity under APB-20. The total of ending fund balances for the Missoula campus as reported at June 30, 2000, were \$237,625,535. As a result of consolidating The University's four campuses, beginning fund balances as reported in the accompanying statements total \$310,277,895.



The University of
Montana

Office of the President
The University of Montana
Missoula, Montana 59812-3324

Office: (406) 243-2311
FAX: (406) 243-2797

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LEGISLATIVE AUDIT DIV.

28 February, 2002

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
Room 135 State Capitol
P. O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

I write to compliment the Legislative Audit staff for its cooperation in completing The University of Montana's consolidated annual financial statements. I appreciate the tremendous effort made to finalize these statements as we work toward a more efficient and comprehensive reporting of the University's financial activity.

Through the dedicated effort of the accounting staff on the campuses as well as those in your office, this report contains an unqualified opinion. We appreciate the cooperative efforts made by the audit team and thank those involved for their assistance. I remain committed to improving controls and reliable financial reporting for The University of Montana.

Sincerely,

George M. Dennison
President

Enclosure

c: R. Crofts, Commissioner of Higher Education
R. Durringer, Vice President for Administration and Finance